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Class. CHANGED TO: TS S C

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DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

20 July 1948

Date: 14/1/77 By: OII**MEMORANDUM FOR THE PRESIDENT**

The Chinese National Government is now so unstable that its collapse or overthrow could occur at any time. There may, however, be no sudden and spectacular developments. The government of Chiang Kai-shek may survive for some time, with dwindling power, and perhaps become merely one of several regimes in China. Already regional leaders in Nationalist-held areas of Manchuria and North China and in the western provinces exercise independently local military and political power.

The most grave danger for Chiang Kai-shek is that his ability to command the support of the principal Nationalist military and political leaders is becoming increasingly uncertain. In addition, Chinese Communist forces at present appear to be undertaking a new general offensive which may destroy the effective fighting power of the Nationalist Army. A threat from a different quarter is developing in the plan of Marshal Li Chi-shen, dissident leader in Hong Kong, to set up a rival provisional government, probably in southwest China. This step, which may materialize soon, could hardly accomplish the immediate overthrow of Chiang but might speed up disintegration in Nationalist China. Although Marshal Li may find support initially in one or more provinces, he does not appear to have the backing of any now prominent Nationalist leaders with significant political and military followings. Leaders such as Fu Tso-yi in North China, and Li Tsung-jen, Nationalist vice president, will probably play a "wait and see" game until the full impact of Marshal Li's anticipated appeal for peace and coalition government with the Communists becomes clear. Because of widespread defeatism and war weariness in Nationalist China, this issue may unite opposition to Chiang. The Communists probably favor negotiations inasmuch as a coalition government would facilitate the extension of their control over all China. Soviet officials in Nanking have recently renewed their overtures with Nationalist officials regarding a compromise peace, and if circumstances become propitious, the USSR may offer to mediate.

Disintegration of the National Government is already so advanced that it is very questionable whether US aid of the proportions currently planned can check this course. Thus the US may find itself in the near future actively supporting a government at Nanking which exercises merely nominal power, a situation which would gravely impair US prestige and interests in the Far East.

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